RBC Economics

Financial Markets Monthly

October 4, 2019

Sentiment slump

Just a few days in, October is already living up to its reputation as a bad month for equities. The S&P 500 fell by 3% in the first two days of the month, easily wiping out September's modest gain. The trigger was a string of disappointing manufacturing sentiment reports (most notably from the US and Germany) that reignited fears about the health of the global economy. Markets were already on edge after a month of rising geopolitical tensions. An attack in Saudi Arabia temporarily disrupted a sizeable chunk of global oil production, the US House of Representatives opened an impeachment inquiry against President Trump, embattled UK PM Boris Johnson continued to vow to leave the EU on October 31 (come what may), and months-long protests in Hong Kong escalated further.

Perhaps it's more surprising that a selloff didn't come sooner. We can thank central banks, which have acted as a security blanket for equity markets this year. Both the Fed and ECB lowered rates in September (with the latter announcing plans to restart QE) and a number of other advanced and emerging market central banks followed suit. In fact, it was the prospect of additional easing—spurred on by yet more negative economic data—that seemed to halt the latest decline in equities. Growing (but still not overwhelming) evidence that manufacturing malaise is spilling over into other sectors has markets betting on further rate cuts, and calls for fiscal stimulus aren't likely to die down. The best antidote, though, would be reversal of the protectionist trade policies that have weighed on industrial output, business sentiment, and the global flow of goods. US and Chinese negotiators will sit down to trade talks in the second week of October, before the next round of scheduled tariff hikes on tap for the 15th.

Central bank near-term bias

↔ A deteriorating global growth outlook and ongoing trade uncertainty should make for a more dovish BoC meeting in October, even as domestic data are showing few signs of slowing significantly.

↘ The Fed is divided on whether another rate cut is needed. But with increasing signs that the trade war is weighing on the US economy, we think the central bank will opt for another "insurance" cut in Q4.

↘ The dual headwinds of Brexit uncertainty and slowing global growth have the BoE talking about potential easing, even if a no-deal Brexit is avoided. We continue to expect a rate cut by the end of the year.

↔ The ECB cut rates in September and announced QE will restart in November. Draghi then called for fiscal stimulus to support the economy, suggesting limited appetite for any further monetary policy easing.

↘ The RBA cut rates in October, slightly sooner than we expected, and maintained an easing bias the we think it will act on in December.

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Highlights

▲ The US raised tariffs on Chinese imports again in September, and manufacturing sentiment suffered.

▲ Tariff hikes have had a limited impact on consumer prices thus far, but companies' margins are being squeezed.

▲ The US housing sector is picking up again as earlier rate increases have been reversed.

▲ The Fed is divided on whether further easing is needed, but we think one more cut is likely this year.

And the survey says…

A further decline in the ISM manufacturing index reignited fears about the health of the US industrial sector. The headline reading fell to a new cycle low, eclipsing downturns during the 2012 European debt crisis and 2015-16 oil price shock. Production, employment, and new orders indices are all pointing to contraction—and new export orders especially so. The further decline in manufacturing sentiment is despite some renewed optimism on the trade front last month. Perhaps respondents are paying more attention to *actual* policy changes—15% tariffs on more than $100 billion in Chinese imports took effect in September—than the ebbs and flows of trade negotiations.

The impact of tariff hikes isn't confined to sentiment data. US customs receipts hit a record $7.2 billion in August. That's good news for the Treasury, but bad news for domestic firms (no, it's not Chinese exporters that are paying those tariffs). The average tariff rate on US goods imports has essentially doubled over the last year and a half, and it looks like stiff competition is forcing importers to absorb that rise in input costs. Companies are increasingly complaining about margin compression, and manufacturers noted "limited ability to raise prices" in the Fed's latest Beige Book. Pressure on margins will only increase if the Trump administration makes good on current plans to raise tariffs further in mid-October and mid-December.

Lower rates supporting the household sector

The ISM non-manufacturing index was equally disappointing in September, falling to its lowest level in three years (but still above the 50 mark, signaling expansion). We've been on the lookout for signs of manufacturing weakness spilling over into other sectors, so this is a concerning development. But there are still few signs of stress in the labour market, and there is growing evidence that lower rates are helping the household sector. Consumer spending increased at a nearly-4% annualized rate year-to-date with rate-sensitive durable goods purchases rising at a double-digit pace. Meanwhile, the latest housing data have been positive across the board: both housing starts and building permits hit a cycle high in August, and existing home sales were the highest since early-2018. It looks like the residential sector added to GDP growth in Q3 for the first time since 2017. That turnaround owes a lot to lower borrowing costs this year which have improved affordability. Ongoing strength on the consumer side and a return to health in housing are providing much-needed offset to headwinds in the industrial sector and capex space—and should continue to do so unless the jobs backdrop deteriorates.

Will a divided Fed cut rates further?

The Fed cut rates at its second consecutive policy meeting in September, continuing a mid-cycle adjustment that is being framed as insurance against risks from slowing global growth and trade. Three of ten voters dissented this time around—two argued against a rate cut (as they did at the prior meeting) while one would've liked to see a larger 50 basis point move. The division didn't end there, with the dot plot showing no consensus on the appropriate policy path over the rest of the year. Five members expect rates to be held steady, five think a rate increase would be appropriate (whether they would vote that way is another question), and seven think one more cut will be needed. The latter likely have past mid-cycle adjustments in mind (75 basis points each in 1995 and 1998).

It's not surprising, then, that the Fed offered little forward guidance in its policy statement, simply reiterating that it will "act as appropriate to sustain the expansion." Whether the "appropriate" action is another rate cut will depend on how the balance of risks around the outlook evolves toward year-end. Recent sentiment data suggests downside risks continue to build. So while there is optimism about upcoming US-China trade talks, we think it will take real progress toward a trade deal (or at least de-escalation) to keep the Fed on the sidelines. Markets are fully pricing in a rate cut, and even some odds of two moves, by year end. Our forecast assumes a 25 basis point cut in Q4, and unless growth slows more sharply, steady monetary policy in 2020.

Canada's growth streak ends, but services output powers on

Canadian GDP was flat in July, ending a run of upside surprises that amounted to the best monthly growth streak in two years. Maintenance shutdowns in the oil and gas sector and a pullback in drilling activity weighed on growth in July. A further increase in Alberta's production caps gives the energy sector room to grow over the second half of the year, and July's transitory shutdowns should be reversed, but investment remains sluggish due to longer-term egress issues. The boost to global oil prices from supply disruptions in Saudi Arabia didn't last, leaving WTI in the lower half of the $50-60 per barrel range that prevailed over the summer. Meanwhile, Canada's manufacturing sector continued to lose steam. That's not surprising given the global slowdown in industrial production growth. Further deterioration in manufacturing sentiment in countries like the US and Germany raises concerns about Canada's industrial outlook going forward, even as the domestic PMI improved in September.

Fortunately, Canada's services sector has continued to power ahead, recording above-trend gains in four of the last five months. Growth was broadly-based over that period, with particular strength in the wholesale and transport sectors (a bit surprising given a slowdown on the goods side) as well as finance and real estate (in line with an ongoing recovery in housing). Globally, the key question is whether weakness in the industrial sector is spilling over into the rest of the economy. There is some early evidence of that dynamic in Germany, where manufacturing is a larger share of the economy, but the Canadian services sector's recent performance suggests we're not there yet. Weakness in goods production will make it difficult to maintain above-2% growth—in line with the BoC's view that growth will be a bit slower over the second half of the year—but there is little to suggest the economy is gearing down more significantly.

Federal election to determine fiscal path ahead

The Department of Finance closed the books on fiscal year 2018/19 (which ended March 31) posting a $14.0 billion deficit. That was slightly lower than projected as income tax receipts got a boost from strong employment growth. Last year's deficit was the smallest in three years but remains a far cry from the average budget shortfall of less than $4 billion in the prior three years (including a nearly balanced budget in FY 2014/15). The government's projections show the deficit widening to nearly $20 billion in both the current and upcoming fiscal years. That increase reflects higher debt servicing costs and the addition of a $3 billion risk adjustment, so it isn't necessarily stimulative. Of course that fiscal path will change after the October 21 federal election, with parties offering voters a number of goodies that could provide a near-term fiscal boost. It's worth noting that none of the major parties is promising a swift return to balanced budgets—it looks like the federal government will continue to run deficits for the next few years, regardless of who is in power.

Global developments key to tone of upcoming BoC meeting

We were caught a bit off-guard by the Bank of Canada's neutral tone in early-September (so were investors, with the Canadian dollar gaining a cent in the days following the decision). But we still expect a more dovish tone from the central bank at its upcoming meeting on October 30. The BoC is paying "particular attention" to global developments, and relative to July when its forecasts were last refreshed we've seen more protectionism from the US, more uncertainty regarding Brexit, and (relatedly) gloomier manufacturing sentiment globally. So regardless of optimism around US-China trade talks or avoiding a no-deal Brexit, the BoC will be taking a more challenging global backdrop into account when it updates its forecasts. As always, how domestic companies are faring against that backdrop will be a key consideration. We'll get a better view on that in the October 22 Business Outlook Survey. Greater pessimism from Canadian firms would translate into a more cautious or dovish tone from the BoC. It's worth noting that the bank won't immediately incorporate any new fiscal measures following the October election (it tends to wait until the budget is passed) but any prospect of fiscal easing in the year ahead could be cause for patience.

Highlights

- ▲ Canada's goods-producing sector weighed on growth in July…
- ▲ …but services GDP is rising at a healthy 2.5% year-over-year clip.
- ▲ Fiscal policy could become slightly more stimulative after the federal election on October 21.
- ▲ The BoC's next Business Outlook Survey will be closely watched for how domestic firms are dealing with rising global uncertainty.

Highlights

▲ The UK's three industry PMIs were all in contractionary territory in September.

▲ With Brexit uncertainty potentially extending into 2020, the BoE seems more open to lowering rates.

▲ The ECB introduced a slew of easing measures in September, the second-last meeting under Draghi's leadership.

▲ Despite solid job growth, the RBA is seeing little progress toward its full employment objective.

BoE opening the door to a rate cut

We continue to expect the UK economy will avoid a 'technical' recession in Q3 (two consecutive quarters of declining GDP) but that hardly means the economic outlook is improving. Activity likely got a boost from last quarter from no-deal Brexit preparations (inventory building provided a similar lift in Q1) and stronger auto production (annual shutdowns were brought forward into Q2). But the economy's underlying pulse remains weak with PMI data pointing to ongoing contraction in the manufacturing and construction industries, and further softening in the services sector. Negative sentiment is clearly weighing on business investment, which declined in five of the last six quarters. Household spending is keeping the economy above water, with a strong labour market and accelerating wage growth giving some balance to an otherwise deteriorating consumer confidence picture. Overall, though, it's hard to see growth picking up above a 0.2-0.3% pace in the coming quarters unless Brexit uncertainty is resolved.

PM Johnson is negotiating with the EU on a potential solution to the Irish border issue, but barring an agreeable compromise (which eluded former PM May) it looks like the UK will have to ask for another deadline extension to avoid a no-deal Brexit on October 31. That could mean further Brexit uncertainty heading into 2020, three-and-a-half years after the referendum. That prospect, combined with a slowing global growth backdrop, is starting to weigh more heavily on the BoE. As one formerly hawkish MPC member recently noted, even if a no-deal Brexit is avoided, it's plausible that the next move on rates could be down. We have been of that view for some time, and retain a Q4 rate cut in our profile.

Draghi goes all in, one last time

Outgoing ECB President Draghi doesn't do things in half measures, and that remained the case at his penultimate policy meeting in September. The central bank unveiled its promised stimulus package, the centrepiece of which sees quantitative easing restart in what is effectively an open-ended program (continuing until shortly before rates rise, which is likely to be years from now). That went further than most thought and offset any disappointment with a relatively modest 10 basis point rate cut. Other measures included a tiered deposit rate to soften the impact of negative rates on the banking system, and details on a new refinancing operation to encourage lending. Draghi then passed the baton not to incoming ECB President Christine Lagarde, but to EU lawmakers, saying fiscal policy should be the main tool going forward. The idea that the ECB has played its hand fueled a negative market reaction, even if the actual policy measures went beyond expectations.

Based on the latest economic data, a fiscal jolt wouldn't hurt. Germany's industrial slowdown shows no sign of letting up, with the country's manufacturing PMI falling to lows not seen since the financial crisis. It looks like the euro area's largest economy contracted again in Q3, though growth in the currency bloc's less trade-dependent countries should keep overall GDP around 0.2% in the quarter.

RBA moves sooner than expected, more to come this year

The Reserve Bank of Australia lowered its cash rate by another 25 basis points at the beginning of October, ending what turned out to be a very brief pause after back-to-back cuts in June and July. That the central bank moved even sooner than we expected (November was circled in our calendar) suggests limited confidence in hitting its inflation objective, and little patience to wait for signs of policy traction. The RBA's statement highlighted two themes that we've said are key in the current easing cycle: labour markets and the global rates backdrop. It noted that employment growth is likely to slow from its recent, strong pace, which itself hasn't been enough to absorb slack and lift wages. The statement also put more emphasis on achieving full employment, a goal that appears distant with the unemployment rate rising (now ~3/4 ppt above longer run levels) and underemployment even higher. The RBA also pointed out the "trend to lower interest rates globally," something Governor Lowe recently said could impact the country's exchange rate and its ability to achieve inflation and employment targets. With the central bank maintaining an easing bias and seemingly ready to act on it, we have brought forward our call for the next cut from February to December.

Interest rate outlook

%, end of period

	Actuals							Forecast				
	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
Canada												
Overnight	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.50
Three-month	1.10	1.26	1.59	1.64	1.67	1.66	1.65	1.60	1.40	1.40	1.40	1.40
Two-year	1.78	1.91	2.21	1.86	1.55	1.47	1.58	1.35	1.30	1.45	1.45	1.50
Five-year	1.97	2.07	2.34	1.89	1.52	1.39	1.40	1.35	1.40	1.50	1.55	1.60
10-year	2.09	2.17	2.43	1.97	1.62	1.47	1.36	1.35	1.45	1.55	1.60	1.70
30-year	2.23	2.20	2.42	2.18	1.89	1.69	1.53	1.60	1.70	1.80	1.90	1.95
United States												
Fed funds**	1.75	2.00	2.25	2.50	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75
Three-month	1.73	1.93	2.19	2.45	2.40	2.12	1.88	1.65	1.65	1.65	1.65	1.65
Two-year	2.27	2.52	2.81	2.48	2.27	1.75	1.63	1.50	1.60	1.65	1.70	1.70
Five-year	2.56	2.73	2.94	2.51	2.23	1.76	1.55	1.50	1.60	1.65	1.85	1.95
10-year	2.74	2.85	3.05	2.69	2.41	2.00	1.68	1.50	1.70	1.85	2.00	2.10
30-year	2.97	2.98	3.19	3.02	2.81	2.52	2.12	1.95	2.10	2.25	2.40	2.45
United Kingdom												
Bank rate	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.50
Two-year	0.82	0.72	0.82	0.75	0.63	0.62	0.37	0.55	0.60	0.60	0.60	0.60
10-year	1.34	1.28	1.57	1.27	0.99	0.84	0.49	0.85	0.90	1.00	1.10	1.10
Euro area												
Deposit Rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60
Two-year	-0.59	-0.69	-0.55	-0.59	-0.60	-0.73	-0.74	-0.80	-0.80	-0.80	-0.75	-0.75
10-year	0.50	0.31	0.47	0.25	-0.07	-0.33	-0.58	-0.20	-0.10	-0.05	0.00	0.00
Australia												
Cash target rate	1.50	1.50	1.50	1.50	1.50	1.25	1.00	0.50	0.50	0.50	0.50	0.50
Two-year	2.00	2.00	2.02	1.89	1.47	0.98	0.76	0.60	0.50	0.50	0.50	0.50
10-year	2.60	2.63	2.67	2.32	1.78	1.32	1.01	0.75	0.95	1.15	1.30	1.40
New Zealand												
Cash target rate	1.75	1.75	1.75	1.75	1.75	1.50	1.00	0.75	0.50	0.50	0.50	0.50
Two-year swap	2.21	2.14	2.02	1.96	1.62	1.35	0.92	0.85	0.75	0.75	0.75	0.75
10-year swap	3.06	3.02	2.89	2.64	2.15	1.78	1.20	0.95	1.05	1.20	1.40	1.50
Yield curve*												
Canada	31	26	22	11	7	0	-22	0	15	10	15	20
United States	47	33	24	21	14	25	5	0	10	20	30	40
United Kingdom	52	56	75	52	36	22	12	30	30	40	50	50
Eurozone	109	100	102	84	53	40	16	60	70	75	75	75
Australia	60	63	65	43	31	34	25	15	45	65	80	90
New Zealand	85	88	87	68	53	43	28	10	30	45	65	75

* Two-year/10-year spread in basis points, **Top of 25 basis point range

Source: Reuters, RBC Economics Research

Central bank policy rate

%, end of period

		Current	Last	
United States	Fed funds	1.75-2.00	2.00-2.25	September 18, 2019
Canada	Overnight rate	1.75	1.50	October 24, 2018
United Kingdom	Bank rate	0.75	0.50	August 1, 2018

		Current	Last	
Eurozone	Deposit rate	-0.50	-0.40	September 12, 2019
Australia	Cash rate	0.75	1.00	October 1, 2019
New Zealand	Cash rate	1.00	1.50	August 6, 2019

Source: Bloomberg, Reuters, RBC Economics Research

Economic outlook

Growth outlook

% change, quarter-over-quarter in real GDP

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019F	2020F
Canada*	1.5	2.5	2.1	0.3	0.5	3.7	1.8	1.4	1.4	1.6	1.7	1.6	3.0	1.9	1.6	1.7
United States*	2.6	3.5	2.9	1.1	3.1	2.0	2.0	1.5	1.5	1.6	1.8	1.8	2.4	2.9	2.3	1.7
United Kingdom	0.1	0.5	0.6	0.3	0.6	-0.2	0.2	0.3	0.3	0.3	0.4	0.4	1.9	1.4	1.1	1.1
Euro area	0.3	0.4	0.2	0.3	0.4	0.2	0.2	0.3	0.3	0.4	0.4	0.3	2.7	1.9	1.2	1.3
Australia	1.0	0.7	0.3	0.1	0.5	0.5	0.7	0.7	0.6	0.5	0.8	0.7	2.4	2.7	1.8	2.5

*annualized

Inflation outlook

% change, year-over-year

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019F	2020F
Canada*	2.1	2.3	2.7	2.0	1.6	2.1	2.0	2.2	2.0	1.6	1.5	1.7	1.6	2.3	2.0	1.7
United States*	2.2	2.7	2.6	2.2	1.6	1.8	1.7	1.8	2.0	1.8	2.0	2.2	2.1	2.4	1.7	2.0
United Kingdom	2.7	2.4	2.5	2.3	1.8	2.0	1.7	1.7	1.9	1.7	1.8	1.8	2.7	2.5	1.8	1.8
Euro area	1.3	1.7	2.1	1.9	1.4	1.4	1.0	1.2	1.9	1.4	1.4	1.4	1.5	1.8	1.3	1.5
Australia	1.9	2.1	1.9	1.8	1.3	1.6	1.5	1.4	1.9	1.9	2.0	2.1	1.9	1.9	1.4	2.0

Source: Statistics Canada, Bureau of Economic Analysis, Bureau of Labor Statistics, Office for National Statistics, Statistical Office of the European Communities, Australian Bureau of Statistics, Statistics New Zealand, RBC Economics Research

Inflation tracking

Inflation Watch

	Measure	Current period	Period ago	Year ago	Three-month trend	Six-month trend
Canada	CPI ex food & energy[1]	Aug	0.2	2.2	2.5	2.5
United States	Core PCE[1,2]	Aug	0.1	1.8	2.4	1.6
United Kingdom	All-items CPI	Aug	0.5	1.7	2.1	1.9
Euro area	All-items CPI[1]	Sep	0.0	0.9	0.7	1.2
Australia	Trimmed mean CPI[1]	Q2	0.4	1.6	N/A	N/A
New Zealand	All-items CPI	Q2	0.6	1.7	N/A	N/A

1 Seasonally adjusted measurement.
2 Personal consumption expenditures less food and energy price indices.

Source: Statistics Canada, Bureau of Labor Statistics, Office for National Statistics, Statistical Office of the European Communities, Australian Bureau of Statistics, Statistics New Zealand, RBC Economics Research

Currency outlook

Level, end of period

	Actuals							Forecast					
	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
Canadian dollar	1.29	1.31	1.29	1.36	1.33	1.31	1.32	1.30	1.30	1.31	1.32	1.33
Euro	1.23	1.17	1.16	1.15	1.12	1.14	1.09	1.08	1.08	1.10	1.10	1.12
U.K. pound sterling	1.40	1.32	1.30	1.28	1.30	1.27	1.23	1.19	1.19	1.18	1.18	1.20
Japanese yen	106.3	110.8	113.7	109.7	110.9	107.9	108.1	110.0	112.0	111.0	110.0	109.0
Australian dollar	0.77	0.74	0.72	0.70	0.71	0.70	0.68	0.68	0.67	0.67	0.66	0.66

Canadian dollar cross-rates

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
EUR/CAD	1.59	1.53	1.50	1.56	1.50	1.49	1.44	1.40	1.40	1.44	1.45	1.49
GBP/CAD	1.81	1.73	1.68	1.74	1.74	1.66	1.63	1.55	1.54	1.55	1.56	1.60
CAD/JPY	82.4	84.3	88.1	80.4	83.0	82.4	81.6	84.6	86.2	84.7	83.3	82.0
AUD/CAD	0.99	0.97	0.93	0.96	0.95	0.92	0.89	0.88	0.87	0.88	0.87	0.88

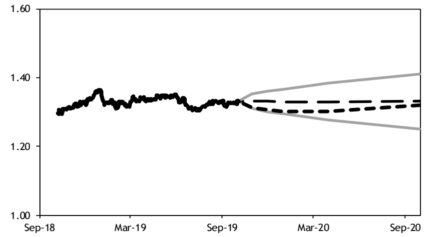
Rates are expressed in currency units per US dollar and currency units per Canadian dollar, except the euro, UK pound, Australian dollar, and New Zealand dollar, which are expressed in US dollars per currency unit and Canadian dollars per currency unit.

Source: Bloomberg, RBC Economics Research

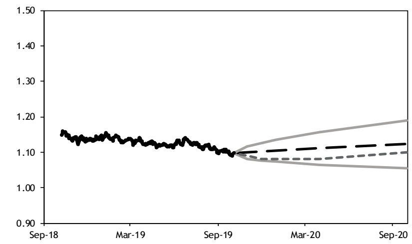
RBC Economics outlook compared to the market

The following charts track historical exchange rates plus the forward rate (dashed line) compared to the RBC Economics forecast (dotted line) out one year. The cone for the forecast period frames the forward rate with confidence bounds using implied option volatilities as of the date of publication.

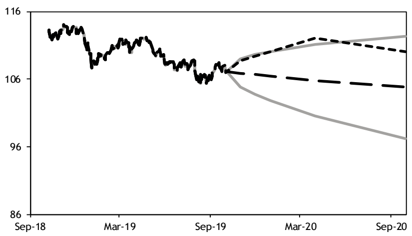
Canadian dollar



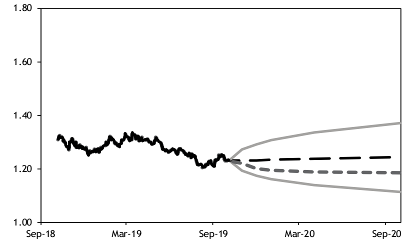
Euro



Japanese yen



U.K. pound

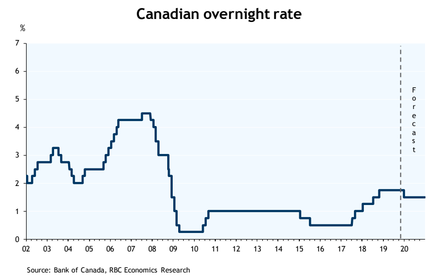


Central bank watch

Bank of Canada

Canadian GDP was unexpectedly flat in July though transitory shutdowns in the oil sector were a factor. Our Q3 tracking is consistent with the BoC's view that growth will slow in H2/19.

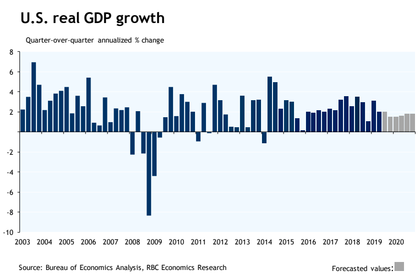
Domestic data have been fairly solid but the global growth picture is deteriorating. The BoC is paying particular attention to external developments, which should make for a dovish tone in October.

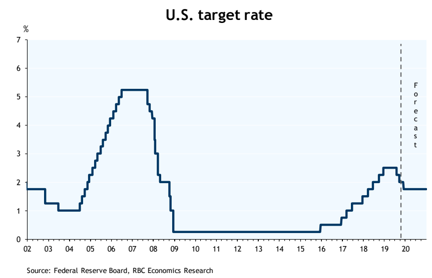


Federal Reserve

The US economy was resilient to a manufacturing slowdown in H1/19, but recent softening in the ISM non-manufacturing index suggests the risk of spillover is growing.

We expect the Fed will cut rates again in Q4. Markets look for easing to continue next year, though the growth outlook will have to deteriorate further for the Fed to go beyond a mid-cycle adjustment.

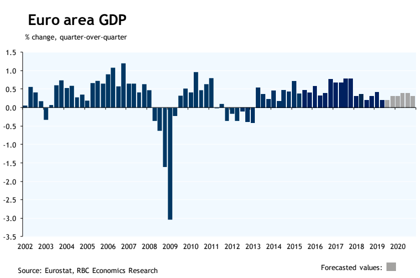


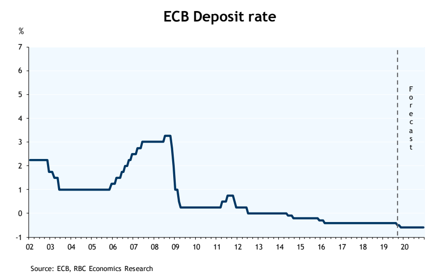


European Central Bank

Germany's manufacturing malaise is starting to impact the rest of the economy, and others in the currency bloc are seeing only modest growth.

The ECB lowered rates further in September and plans to restart QE. While those policies are likely to be in place for an extended period, the central bank is calling on fiscal policy to be the main tool of support going forward.

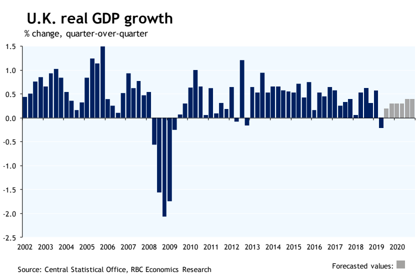


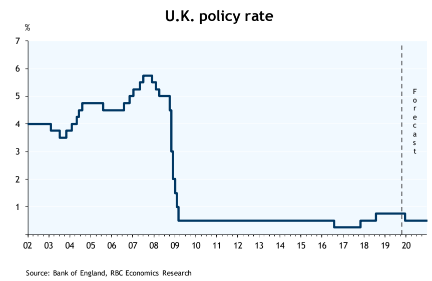


Bank of England

The UK's composite PMI fell to its lowest level since the Brexit referendum, with the manufacturing, services, and construction indices all sitting below the key 50 mark in September.

With a global slowdown and domestic uncertainty both weighing on the UK economy, the BoE sounds more open to a rate cut—even if a no-deal Brexit is avoided on October 31.

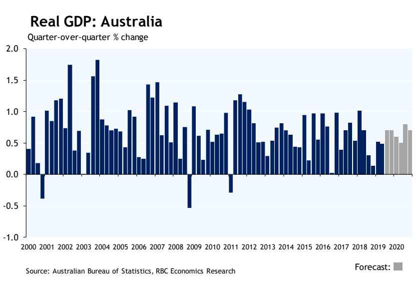


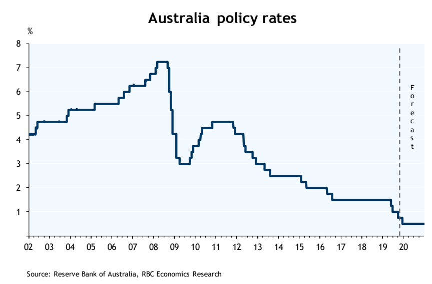


Reserve Bank of Australia

The RBA noted signs of a "gentle turning point" in economic growth, but cut rates nonetheless as labour market slack is likely to keep inflation below target. Global easing also influenced the decision.

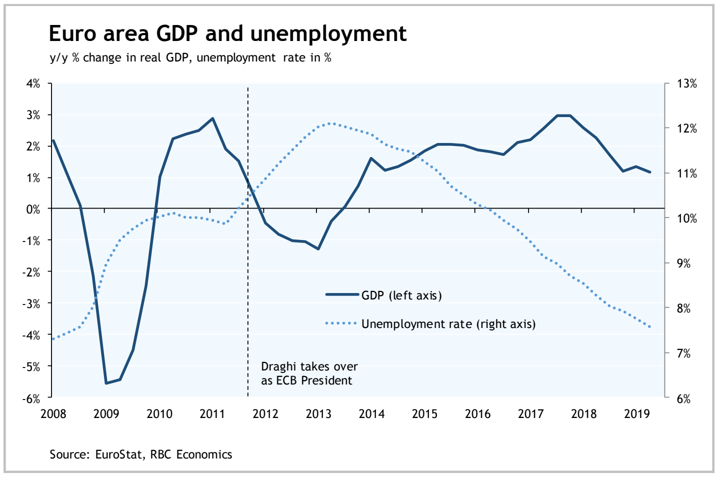
We expect the central bank will lower rates again in December, bringing the cash rate to a new record low of 0.50%. Talk of potential quantitative easing is likely to increase with rates near the lower bound.



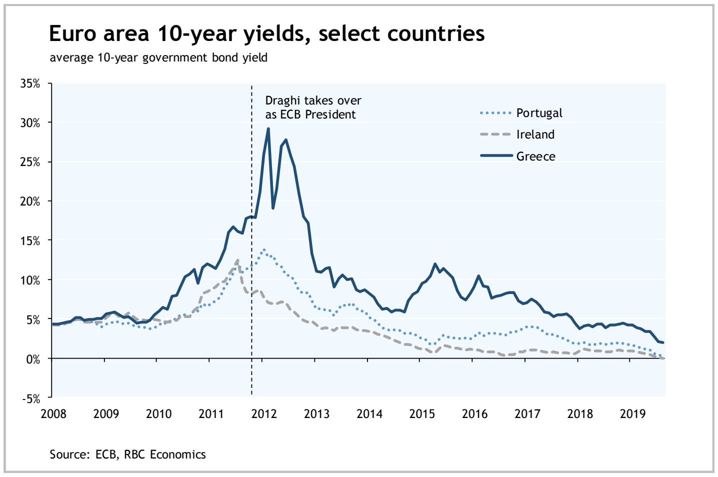


A look back on Draghi's memorable tenure as ECB President

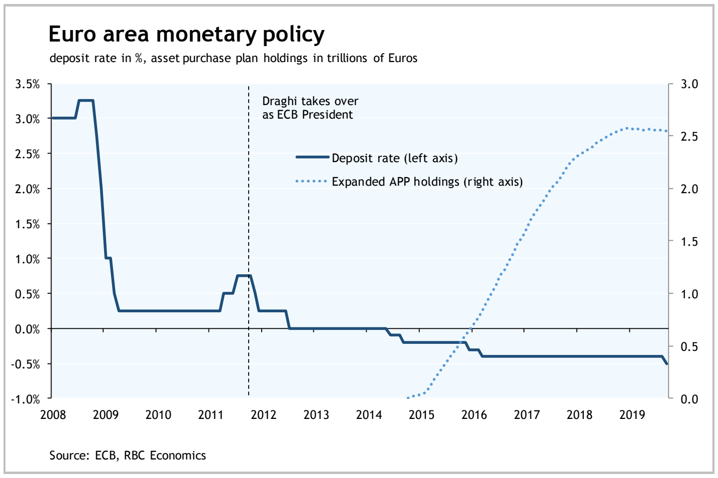
Mario Draghi took over as President of the European Central Bank in November 2011, just as the currency bloc was entering its second recession in five years. Unemployment, which had plateaued around 10% after the 2008-09 recession, eventually rose to 12% (and more than twice that in some countries).



Draghi took the helm in the midst of a debt crisis that threatened to fracture the currency bloc. In a now-famous speech in July 2012, he said, "the ECB is ready to do whatever it takes to preserve the euro." He promised it would be enough, and it was—borrowing costs were eventually reduced across the euro area.



The ECB lowered its policy rate to zero to combat the double-dip recession, then eventually into negative territory to fight against the threat of deflation. The central bank also embarked on an a quantitative easing program that bought more than €2.5 trillion in assets. Purchases will restart in November.



Draghi and Co. succeeded in keeping the euro area from falling into a deflationary spiral, but core inflation has been stuck around 1% for six years now—just half the ECB's target. A recent pickup in wage growth is encouraging, but based on the ECB's staff forecasts, 2% inflation is still a ways away.